Farm Operator Household Income and Wealth Compare Favorably With All U.S. Households

On average, farm operator household income was about the same as the average for all U.S. households in 1995. The average farm operator household received its income from various sources, and only 11 percent was from the farm. Households with commercial farms, however, received about half of their income from farming. On average, the net worth of farm operator households fell between those of all U.S. households and the households of the self-employed. Wealth of farm households consisted mostly of their farms, regardless of the size of the farm they operated.

Farm households today depend more on off-farm income than farm income for their livelihood. Most establishments classified as farms are too small to support a household because the official U.S. farm definition requires only $1,000 of sales to qualify as a farm. For many farm households, off-farm jobs and the health of the local nonfarm economy may be more important than changes in farm income. For households with larger farms, income from farming remains critical. Nevertheless, the farm makes up most of the wealth of farm households, regardless of farm size. The value of farmland and other farm assets may be a larger issue than farm income for households operating small farms.

Monitoring the level and sources of farm households' income and wealth helps in discussions of ways to improve or maintain the economic well-being of farm people. This is particularly true after major farm legislation, such as that passed in 1996, which may affect farm income and asset values.

The information presented here is unique because it covers both income and wealth and because it covers all farm operator households and their farms across the United States. This article uses data from the U.S. Department of Agriculture's Farm Costs and Returns Survey (FCRS). For more information about the survey, see Data Sources. Averages, rather than medians, are used to measure income and wealth from the FCRS. For more information, see "mean income versus median income" in the appendix.

In addition, this article uses mean household income for all U.S. households ($44,900) to compare with operator household income, rather than mean household income in nonmetro areas ($27,800). Farm households are not entirely nonmetro; about one-third of farm households lived in metro areas in 1995.

Sources and Levels of Income Vary With Farm Size

The average income of farm operator households compares favorably with that of other U.S. households. According to the most recent FCRS estimates, farm operator households averaged $44,400 in income from all sources in 1995. Average farm operator household income was 99 percent of the average for all U.S. households ($44,900).

In 1995, 89 percent of operator household income came from off-farm sources, mostly from wages, salaries, and nonfarm businesses (fig. 1). Sources of income, however, varied with the characteristics of the operator and the farm (app. table 13). For example, the amount of farm income increased with increasing farm size, as measured by sales of agricultural products (fig. 2).

About three-fourths of U.S. farmers operated noncommercial farms (sales less than $50,000). Most of these operators reported a major occupation other than farming in 1995 (49 percent) or considered themselves retired (21 percent). On average, households of these operators lost money farming in 1995 and depended on off-farm sources for virtually all their income, regardless of where they lived (fig. 3).

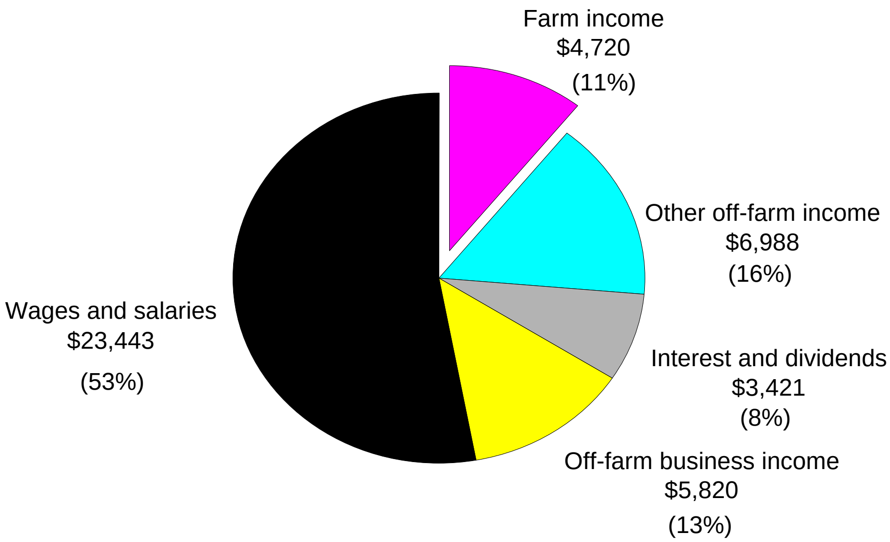
In contrast, households with commercial farms (sales of $50,000 or more) depended on off-farm income for only half of their income. About 88 percent of the operators of these larger farms reported farming as their major occupation. Only 26 percent of the operators of commercial farms actually worked off-farm, according to the 1994 FCRS, the most current FCRS to collect information about off-farm job holding. But, the spouse worked off-farm in 44 percent of commercial farm households. As a result, 56 percent of households operating commercial farms had an operator, a spouse, or both working off-farm.

Combining farm and off-farm income was an effective strategy for households with commercial farms. On average, these households had substantially higher total income

Figure 1

Sources of income for average farm operator household, 1995

Income from the farm averages 11 percent of total farm household income



Source: USDA, Economic Research Service, 1995 Farm Costs and Returns Survey.

Figure 2

Average farm operator household income, by source and sales class, 1995

On average, the households of small farms depend heavily on off-farm income, while the households of larger farms depend mostly on farm income

*The relative standard error exceeds 25 percent but is no more than 50 percent.
Source: USDA, Economic Research Service, 1995 Farm Costs and Returns Survey for farm operator household data. U.S. Bureau of the Census, March 1996 Current Population Survey for all U.S. households.

($57,700) in 1995 than households running noncommercial farms ($39,800) or all U.S. households ($44,900). Regardless of residence, households operating commercial farms had higher total household income than their noncommercial counterparts (fig. 3).

Off-Farm Income and Employment over the Decades

Although farm operator households' dependence on off-farm income is commonly viewed as a recent development, a lack of consistent historical data makes it difficult to say exactly when farm households began to rely heavily on off-farm income. To some extent, part-time farming has always existed.

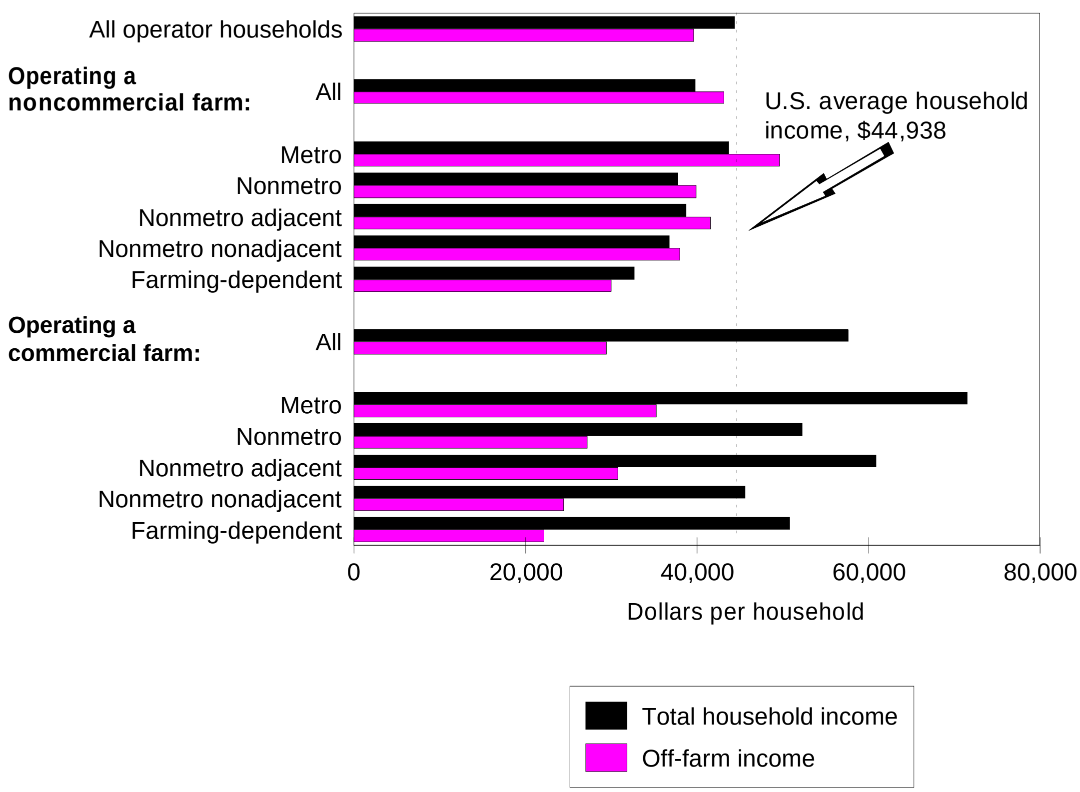
The data that do exist indicate that off-farm work has been important to farm households for generations. FCRS household data are available only from 1988 forward, but an earlier USDA household data series extended back to 1960. Although not entirely comparable with the FCRS, this earlier household series showed that operator households relied on off-farm income for at least 50 percent of their income as far back as the early 1960's.

Another discontinued USDA series—mean per capita disposable personal income of farm residents—estimated income from farm and off-farm sources between 1934 and 1983. This series also showed heavy reliance on off-farm income (40 to 70 percent) in the

Figure 3

Total and off-farm income for operator households, by sales class of farm operated and residence, 1995

Regardless of location, households operating commercial farms receive total household income near or above the average for all U.S. households and more than their noncommercial counterparts



Note: Off-farm income can be greater than total household income if farm income is negative.

Source: USDA, Economic Research Service, 1995 Farm Costs and Returns Survey for farm operator household data. U.S. Bureau of the Census, March 1996 Current Population Survey for all U.S. households.

1960's, 1970's, and early 1980's. Even in the 1930's, 30 to 41 percent of farm residents' disposable personal income came from off-farm sources. Farming provided the largest share of disposable personal income, about three-quarters, during most of the 1940's. At that time, farming experienced a boom from World War II and its aftermath.

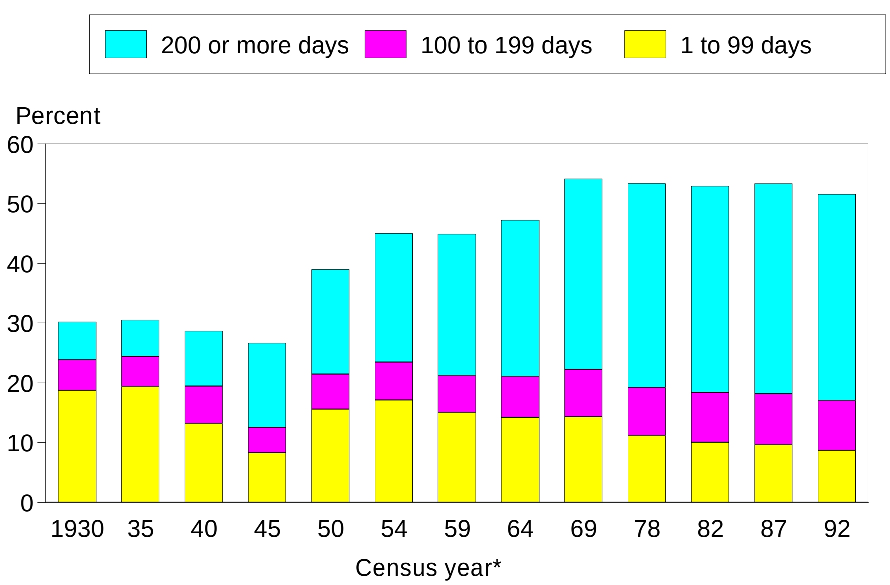
A related data series on days worked off-farm from the agricultural census extends from the most recent agricultural census back to 1930. These data also suggest that income from off-farm work by the operator has been important as long ago as the 1930's (fig. 4). This series shows that one-fourth to one-third of farm operators worked off-farm in the 1930's and early 1940's, generally for fewer than 100 days. By 1954, about 45 percent of operators worked off-farm, only about 7 percentage points less than in 1992. Although the percentage working off-farm has not increased dramatically since 1954, the percentages working at least 200 days off-farm increased from 22 percent in 1950 to 35 percent in 1992, with most of the increase coming between 1950 and 1969. Unlike the income data, the census data consider only the activities of the operator and exclude off-farm work by other household members.

Net Worth Is Important, Too

Although income contributes to a household's economic well-being, net worth—the difference between assets and liabilities—is also important. As one would expect, net worth was substantially more for households with commercial farms ($576,400) than for their counterparts with noncommercial farms ($293,800) (fig. 5). The farm, however, accounted for most of the net worth of both commercial and noncommercial farm households.

Regardless of residence, operator households with a noncommercial farm had an average net worth near the average for all U.S. households, but a smaller net worth than U.S. households whose householders reported self-employment as their major occupation. In contrast, households with commercial farms in each residence category had a net worth closer to the average for all U.S. self-employed households.

Figure 4
Farm operators reporting off-farm work, 1930-92
One-third of farm operators have worked off-farm essentially full-time since the 1970's



*Comparable data for 1974 are unavailable.
Source: U.S. Bureau of the Census, Census of Agriculture, various years.

Households with commercial farms in metro counties had the highest average net worth, $661,300. About 44,100 commercial farm households in metro counties had net worth more than this amount. Twenty-five percent of these households lived in the Corn Belt, and another 22 percent lived in the Pacific region. (For a list of States in the Corn Belt and Pacific region, see “Major Farming Regions” in the Definitions.)

Farming uses land more extensively than most businesses. As a result, real estate accounted for most (68 percent) of the assets of the farms held by operator households. Real estate made up a larger share of the assets of noncommercial farms (78 percent) than commercial farms (58 percent), reflecting commercial farms’ greater propensity to rent land and hold other assets such as equipment, machinery, and inventories.

Economic and Noneconomic Benefits From Farming

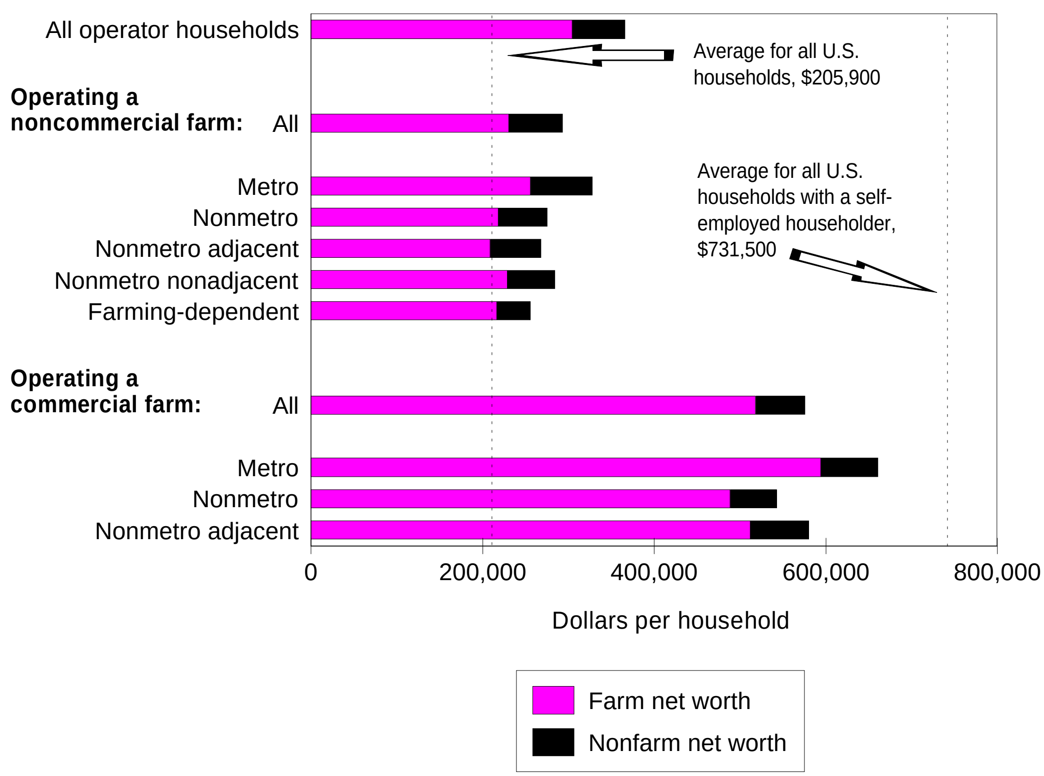
Farming provides benefits to farm households beyond income. Indeed, for many households operating noncommercial farms, income from farming is actually negative. Yet, operators of noncommercial farms continue to farm. Households with noncommercial farms may focus on an economic benefit from farming other than cash income: wealth accumulation.

Responses from the 1995 FCRS, however, indicate that living a farm lifestyle may be more important to noncommercial farm households than either wealth accumulation or farm income. About 57 percent of operators of noncommercial farms rated a rural

Figure 5

Average farm operator household net worth, by sales class and residence, 1995

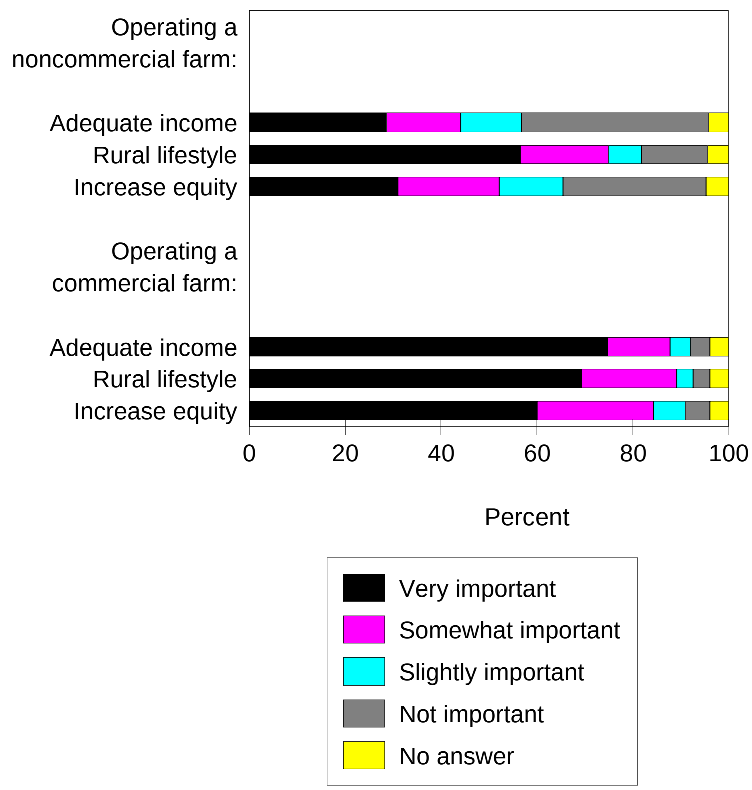
Farms account for most operator households' net worth, regardless of farm size or location



Source: USDA, Economic Research Service, 1995 Farm Costs and Returns Survey for farm operator household data. Federal Reserve System and U.S. Department of the Treasury, 1995 Survey of Consumer Finances for all U.S. households.

lifestyle as very important in the FCRS (fig. 6). In contrast, only 29 percent said it was that important for the farm to provide adequate income without off-farm work. A similar small share of noncommercial operators (31 percent) rated increasing the equity and assets of the farm as very important. *[Robert A. Hoppe, 202-501-8308 (after November 7, 202-694-5572, rhoppe@econ.ag.gov, and Penni Korb, 202-219-0592 (after November 7, 202-694-5575, pkorb@econ.ag.gov]*

Figure 6
Importance of selected goals to the operator, 1995
For operators of noncommercial farms, lifestyle is more important than adequate farm income without having to work off-farm



Source: USDA, Economic Research Service, 1995 Farm Costs and Returns Survey, version 1.

Data for Comparisons Between Farm Operator Households and All U.S. Households

The Farm Costs and Returns Survey (FCRS) collects data about U.S. farms, their operators, and their operator households. It collects no data about nonfarm households. Thus, any comparisons between farm operator households and all U.S. households must rely on other data sources that provide information about U.S. households in general.

This article uses the Current Population Survey (CPS), conducted by the Census Bureau, for estimates of income for all U.S. households. The CPS is the source of the official U.S. estimates of income levels and poverty counts. Farm operator household income from the FCRS is defined to be consistent with the definition of household income used in the CPS.

Statistics on net worth of all U.S. households are from the Survey of Consumer Finances (SCF). The SCF is sponsored by the Federal Reserve in cooperation with the Treasury Department. The Survey of Income and Program Participation (SIPP), conducted by the Census Bureau, also provides estimates of household net worth. The SCF, however, is used in this article rather than the SIPP because the SCF was designed specifically to collect information about household wealth. According to the Census Bureau:

> . . . we believe that SIPP provides biased estimates of the aggregate of asset holdings and of mean amounts. The SIPP sample frame contains few observations for high income households, while the SCF makes a special attempt to survey respondents who are likely to have high income or be wealthy. . . . The 1993 measured mean net worth estimated by the SIPP was $99,772, while the 1992 measured mean net worth estimated from the SCF was $226,900 (in 1993 dollars).